

## Message Text

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ACTION EB-08

INFO OCT-01 IO-13 ISO-00 L-03 FRB-03 OMB-01 ITC-01 SP-02  
USIA-06 AGRE-00 AID-05 CIAE-00 COME-00 INR-07 LAB-04  
NSAE-00 OIC-02 SIL-01 STR-04 TRSE-00 CIEP-01 CEA-01  
ABF-01 AF-08 ARA-06 EA-07 EUR-12 NEA-10 NSC-05 SS-15  
H-01 PA-01 PRS-01 /130 W  
-----311354Z 122167 /53

P 311109Z JAN 77

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TO SECSTATE WASHDC PRIORITY 4843

INFO ALL OECD CAPITALS PRIORITY 146

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E.O. 11652: N/A

TAGS: UNCTAD

SUBJECT: UNCTAD: SECOND PREPARATORY MEETING ON A COMMON FUND,  
JANUARY 24-29, 1977

REF: (A) GENEVA 533 (NOTAL), (B) GENEVA 545

1. SUMMARY: SECOND PREPARATORY MEETING ON A COMMON FUND  
ENDED IN EARLY HOURS OF MORNING OF JANUARY 29, WITH IN-  
CONCLUSIVE RESULTS. DEBATE HIGHLIGHTED WEAKNESSES OF  
G-77 SOURCE OF FINANCE PROPOSAL, IN PARTICULAR FINANCING  
OF OTHER MEASURES. GROUP B TABLED DISCUSSION PAPER  
JANUARY 26 WHICH SETS FORTH OPTIONS ON BUFFER STOCK  
FINANCING, WHILE MAKING CLEAR GROUP B OR ITS INDIVIDUAL  
MEMBERS NOT COMMITTEE TO ANY PARTICULAR OPTION. CLOSING  
DAY HIGHLIGHTED BY ATTEMPT, PARTIALLY SUCCESSFUL, BY  
G-77 TO HAVE AGENDA FOR MARCH NEGOTIATIONS REFLECT ITS  
DESIRE TO NEGOTIATE AND SIGN AGREEMENT IN MARCH, BUT THIS  
AGENDA WILL BE REVIEWED BY THE THIRD PREPARATORY MEETING  
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IN MIND-FEBRUARY. GROUP B PREPARATIONS FOR NEXT MEETING  
DISCUSSED IN PARA 11 BELOW. END SUMMARY.

2. BACKGROUND AND TEXT OF GROUP B DISCUSSION PAPER  
REPORTED IN REFTELS. PLENARY DEBATE JANUARY 25-27 FOCUSED  
PRIMARILY ON THREE CF OBJECTIVES -- FINANCING BUFFER  
STOCKS, FINANCING OF OTHER MEASURES (DIVERSIFICATION,

R&D, MARKET PROMOTION, ETC.), AND DIRECT INTERVENTION IN MARKETS OF COMMODITIES NOT SUBJECT TO COMMODITY AGREEMENTS.

3. BUFFER STOCK FINANCING. GROUP B (DEVELOPED COUNTRIES) SPOKESMAN STRESSED THAT BASIC BUILDING BLOCKS OF INTEGRATED PROGRAM (IP) ARE INDIVIDUAL COMMODITY AGREEMENTS; PRODUCERS AND CONSUMERS SHOULD DECIDE ON STABILIZATION MEASURES AND PROVIDE MAJOR SOURCE OF FINANCE WITHIN THESE. GROUP B DISCUSSION PAPER WAS TABLED WITH VIEW TO ASSURING EXAMINATION OF VARIOUS POSSIBILITIES TO MEET FINANCING REQUIREMENTS; A CF SHOULD BE SEEN AS A FINANCIAL MECHANISM AND SHOULD NOT HAVE ANY POLICY ROLE OVER INDIVIDUAL AGREEMENTS. GROUP D (SOCIALIST COUNTRIES) SPOKESMAN SAID STOCK FINANCING SHOULD BE MAIN FUNCTION OF A CF, LINKED WITH AGREEMENT ON THE NEED FOR INDIVIDUAL STOCKS. GROUP D APPROACH TO CF WAS THAT QUOTE INTERESTED EXPORTING AND IMPORTING COUNTRIES COULD PARTICIPATE ON A VOLUNTARY BASIS UNQUOTE.

4. G-77 (DEVELOPING COUNTRIES) SPOKESMAN (ALATAS, INDONESIA) RESPONDED THAT FUNCTIONS OF A CF PUT FORWARD BY GROUP B IN ITS DISCUSSION PAPER -- CLEARING, POOLING, LOAN GUARANTEES AND MANDATORY CONSUMER FINANCING (SIC) -- ARE PROVIDED FOR IN THE CONCEPT OF A CF AS A CENTRAL SOURCE OF FINANCING. IF, HOWEVER, THEY WERE INTENDED AS INDEPENDENT, SELF-CONTAINED APPROACHES, THAT WOULD BE UNACCEPTABLE. MANDATE OF PREPARATORY MEETINGS WAS QUOTE PREPARATIONS FOR THE NEGOTIATION OF A COMMON FUND UNQUOTE. LIMITED OFFICIAL USE

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POOLING CONCEPT PROPOSED BY "SOME COUNTRIES" (READ FRENCH) A NAIROBI WAS REJECTED THERE. THE FINAL COMPROMISE REACHED AT UNCTAD IV, WHILE RECOGNIZING DIFFERENCES OF VIEWS ON OBJECTIVES AND MODALITIES, WAS CLEAR POLITICAL COMMITMENT TO NEGOTIATE THE CENTRAL SOURCE CONCEPT OF A CF. FINALLY, TIMETABLE AGREED AT NAIROBI PRECLUDED ESTABLISHMENT OF A POOLING FUND OR CLEARING HOUSE CF, SINCE IT CALLED FOR NEGOTIATION OF A CF PRIOR TO NEGOTIATION OF INDIVIDUAL AGREEMENTS.

5. G-77 ALSO ARGUED THAT A CF AS A CENTRAL SOURCE OF FINANCING WOULD HAVE CONSIDERABLE ADVANTAGES OVER THE CENTRAL POOL CONCEPT, INCLUDING: A) A HIGHER CREDIT RATING THAN INDIVIDUAL FUNDS; B) ABILITY TO INTERVENE IN MARKETS IN EXCEPTIONAL CIRCUMSTANCES; AND C) IMPETUS FOR THE ESTABLISHMENT OF A NEW COMMODITY AGREEMENTS.

6. FINANCING OF OTHER MEASURES. GROUP D PRESENTED A SERIES OF HIGHLY POINTED QUESTIONS AND SAID THAT IT COULD

NOT TAKE POSITIONS ON FINANCING OTHER MEASURES UNTIL THESE MEASURES WERE SPECIFIED. IT NOTED THAT THESE MEASURES APPARENTLY INVOLVED RESOURCE TRANSFERS, THUS RAISING QUESTION WHETHER THEY WOULD INDERMINE THE FINANCIAL VIABILITY OF THE CF. GROUP B MADE SIMILAR POINTS, QUESTIONING WHETHER FINANCING OTHER MEASURES WAS PROPOSED AS MEANS OF STABILIZATION OR OF AID. IN ANY CASE, SUCH MEASURES COULD BE FINANCED BY EXISTING IFIS. G-77 IN REPLY SAID CF WAS INTENDED AS MAIN INSTRUMENT TO INTEGRATE OBJECTIVES NAIROBI COMMODITIES RESOLUTION, AND NOTED: (1) PROBLEMS OF PERISHABLE AND SOME OTHER COMMODITIES COULD NOT BE SOLVED SOLELY BY STOCKING; (2) IFIS CANNOT MEET ALL REQUIREMENTS DUE TO LENDING CRITERIA AND COUNTRY RAHTER THAN COMMODITY ORIENTATION OF PROGRAMS; (3) PROJECTS WOULD BE VIABLE AND FINANCED ON A LOAN BASIS; AND (4) MEASURES WOULD HELP SUPPORT MAIN FUNCTION OF CF, WHICH WAS STOCKING. LIMITED OFFICIAL USE

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TO ASSURE VIABILITY, OTHER MEASURES COULD BE HANDLED IN A SPECIAL ACCOUNT AND FINANCED FROM SPECIFIED PROTIONS OF SUBSCRIBED CAPTIAL AND NET PROFITS OF BUFFER STOCK ACCOUNT, AS WELL AS VOLUNTARY CONTRIBUTIONS FROM DCS. NOTICEABLY ABSENT FROM G-77 "ILLUSTRATIVE" LIST OF OTHER MEASURES WERE IMPORT SUBSIDIZATION AND DEFICIENCY PAYMENTS TO PRODUCERS.

7. DIRECT INTERVENTION BY CF IN COMMODITY MARKETS. GROUP B SPOKESMAN SAID AN INTERVENTION ROLE BY THE CF, EVEN IF LIMITED TO COMMODITIES FOR WHICH THERE WAS NO COMMODITY AGREEMENT, AS PROPOSED BY G-77, WOULD BE CONTRARY TO PRODUCER/CONSUMER APPROACH TO COMMODITY PROBLEMS, ALSO, IF CF INTERVENED ANS WAS UNSUCCESSFUL

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IN MAINTAINING PRICES, THIS COULD RESULT IN  
SUBSTANTIAL LOSSES. G-77 RESPONDED THAT (1) CRITERIA  
FOR DIRECT INTERVENTION WOULD HAVE TO BE CAREFULLY  
NEGOTIATED; (2) INTERVENTION WOULD BE ONLY IN EX-  
CEPTIONAL CIRCUMSTANCES WHERE A COMMODITY MARKET WAS IN  
CRISIS AND WOULD BE COMPLEMENTED BY SUPPLY CONTROLS;  
AND (3) WHEN PRODUCERS AND CONSUMERS REACHED AGREEMENT,  
SOTCKS WOULD BE TRANSFERRED TO NEW AGREEMENT.  
ARGENTINA REP ADDED HIS VIEW THAT CF WOULD INTERVENE  
ONLY AT THE REQUEST OF CONCERNED COUNTRIES, THUS ACTING  
QUOTE MORE OR LESS AS AN ASSOCIATION OF PRODUCERS UNQUOTE.

8. FINANCIAL REQUIREMENTS. ONLY UNCTAD SECRETARIAT  
PAPERS DISCUSSED IN PLENARY WAS THAT ON FINANCIAL REQUIRE-  
MENTS OF SUCH A FUND. THIS PAPER, USING A SOPHISTICATED  
SIMULTANEOUS EQUATION MODEL, PROJECTED THE "SAFETY"  
LEVEL OF STOCK REQUIREMENTS FOR THE TEN "CORE" COM-  
MODITIES THAT WOULD ENSURE A SPECIFIED PRICE OBJECTIVE,  
WITH A GIVEN LEVEL OF CONFIDENCE, IN THE 1979-1983  
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PERIOD. THE PAPER'S HEAVILY-CAVEATED CONCLUSION WAS THAT  
\$4.5-5.0 BILLION WOULD PROVIDE THE SECURITY NECESSARY TO  
GUARANTEE PRICE STABILITY. TO THU FIGURE WAS ADDED  
\$1-5.5 BILLION FOR "OTHER USES" TO REACH A \$6 BILLION  
FINANCIAL REQUIREMENT FOR THE FIVE-YEAR PERIOD.

9. CHOOSING NOT TO DEBATE METHODOLOGICAL PROBLEMS OF  
THE MODEL, GROUP B SPOKESMAN SUGGESTED THAT CHANGING  
ASSUMPTIONS ONLY SLIGHTLY AND WITH REASONABLE GROUNDS  
FOR DOING SO, PARTICULARLY WITH RESPECT TO FASTER GROWTH  
PROJECTIONS FOR OECD COUNTRIES, COULD DOUBLE THE FINANCIAL  
REQUIREMENTS FIGURE GIVEN BY THE MODEL. THIS UNDERLINED  
THE DIFFICULTY OF DECIDING EX ANTE ON THE FINANCIAL  
REQUIREMENTS. G-77 SPOKESMAN REPLIED THAT ASSUMPTIONS  
COULD BE CHANGED IN THE OTHER DIRECTION AS WELL, FOR  
EXAMPLE IF IT WERE ASSUMED -- AS SEEM REASONABLE -- THAT

NOT ALL TEN "CORE" COMMODITIES WOULD BE STOCKED.

10. PROCEDURAL ISSUES. IN FINAL DAY, G-77 MADE STRENUOUS EFFORT TO INCREASE IMPORTANCE OF MARCH NEGOTIATING CONFERENCE BY INSISTING THAT IT BE DESIGNATED QUOTE PLENIPOTENTIARY UNQUOTE, EITHER DIRECTLY IN ITS TITLE OR BY INCLUSION OF A SEPARATE ITEM IN DRAFT PROVISIONAL AGENDA FOR THE CONFERENCE WHICH WOULD REFER TO ACTUAL SIGNATURE OF THE FINAL AGREEMENT. SIMILARLY, THEY WISHED ONE AGENDA ITEM TO READ NEGOTIATION OF, RATHER THAN NEGOTIATION ON, AN AGREEMENT (BOTH TERMS APPEAR IN NAIROBI RESOLUTION). IN THE END CONTROVERSY POSTPONED BY AGREEING TITLE WILL NOT CONTAIN THE WORD "PLENIPOTENTIARY", BUT WILL HAVE ITEM ON SIGNATURE OF AGREEMENT. AGENDA WILL BE RECONSIDERED AT THIRD PREP MEETING, BUT SECRETARIAT WILL BE ALLOWED TO SEND OUT INVITATIONS, ATTACHING AGENDA QUALIFIED BY APPROPRIATE FOOTNOTE. (NOTE: SECRETARIAT LEGAL ADVISER ASSURED GROUP B THAT EVEN IF CONFERENCE IS PLENIPOTENTIARY MEETING, COUNTRIES ARE FREE TO DECIDE NOT TO SEND REPS LIMITED OFFICIAL USE

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WITH PLENIPOTENTIARY POWERS.) GROUP D'S ADAMANT OPPOSITION TO AGENDA ITEM ON SIGNATURE WAS NOTABLE IN DISCUSSIONS.

11. PREPARATIONS FOR NEXT MEETING. IN ITS INTERNAL DISCUSSIONS AT CLOSE OF MEETING, GROUP B AGREED TO CONTINUE BASIC LINE OF QUESTIONING G-77 ON ITS PROPOSAL AT THIRD PREPARATORY MEETING (TO BE HELD FEBRUARY 21 - MARCH 1), BUT ALSO TO PURSUE ADDITIONAL WORK IN CAPITALS ON FLESHING OUT OPTIONS AND QUESTIONS RAISED IN ITS OWN DISCUSSION PAPER. GROUP B SPOKESMAN (BARTASS) ASKED SOME GROUP REPRESENTATIVES IN THEIR PERSONAL CAPACITY TO PREPARE PAPERS ON FOLLOWING TOPICS: 1) CLEARINGHOUSE (FRG); 2) POOLING (FRANCE); 3) SOURCE, BUT OTHER THAN UNCTAD VERSION (NETHERLANDS); 4) ROLE OF EXISTING IFIS IN BUFFER STOCK FINANCING (UK). US WAS ALSO ASKED TO COLLECT INFORMATION N ACTIVITIES OF IFIS IN FINANCING OTHER MEASURES. BARRASS ASKED FOR A GROUP B CAUCUS ON SUNDAY, FEBRUARY 20, BEFORE OPENING ON THIRD PREP MEETING TO CONSIDER THESE PAPERS AND COORDINATE B POSITION FOR THE MEETING. THERE WAS ALSO INFORMAL DISCUSSION N LEVEL OF REPRESENTATION AND STAFFING OF DELEGATIONS ON LEVEL OF REPRESENTATION AND STAFFING OF DELEGATIONS FOR MARCH MEETING, WHICH WILL BE REPORTED SEPTEL.

12. COMMENT: THIS SECOND MEETING WAS LARGELY UNEVENTFUL, WITH THE POSSIBLE EXCEPTION OF THE TABLING BY GROUP B OF ITS DISCUSSION PAPER -- ALTHOUGH EVEN THAT, AS THE PAPER SPECIFICALLY INDICATED, REPRESENTED NO CHANGE

IN POSITIONS OF THE COUNTRIES CONCERNED. THE PLENARY DEBATE SHOWED NO MOVEMENT IN G-77 POSITION, ALTHOUGH IT WAS HELPFUL IN POINTING UP FUNDAMENTAL WEAKNESSES IN THEIR SUPPORT OF FINANCING OTHER MEASURES THROUGH A COMMON FUND AND USE OF THE FUND TO INTERVENE IN THE MARKETS OF NON-AGREEMENT COMMODITIES. ANOTHER POSSIBLY SIGNIFICANT TENDENCY WHICH EMERGED WAS THE INCREASINGLY SKEPTICAL OF NOT HOSTILE POSITION OF LIMITED OFFICIAL USE

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GROUP D, A POSITION WHICH PROVOKED SOME SEMI-COMIC RELIEF IN THE FINAL EARLY MORNING HOUR OF THE CONFERENCE WHEN THE PRC DELEGATE READ OUT A BLISTERING ATTACK ON THE SOVIETS.

13. BUT WHAT EMERGES MOST STRIKINGLY FROM THIS WEEK'S MEETING IS THE ALMOST TOTAL LACK OF PREPARADNESS ON THE PART OF VIRTUALLY ALL CONCERNED -- THE LACK OF SERIOUS WORK ON DOCUMENTATION BY THE SECRETARIAT, THE REFUSAL OF THE G-77 TO ALLOW SERIOUS DEBATE ON THE SPECIFICS OF THEIR CF PROPOSAL, AND THE CONTINUED ABSENCE OF ANY MOVEMENT WITHIN GROUP B TOWARD A COMMON POSITION. THE INABILITY OF THE U.S. TO MAKE SPECIFIC PROPOSALS AND ASSUME THE LEADERSHIP ROLE WITHIN GROUP B IS NOTABLE IN THIS LAST RESPECT. CATTO

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**Current Classification:** UNCLASSIFIED  
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**Decaption Date:** 01-Jan-1960 12:00:00 am  
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**Disposition Approved on Date:**  
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**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 22 May 2009  
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**Disposition History:** n/a  
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**Disposition Remarks:**  
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**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
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**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
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**Previous Handling Restrictions:** n/a  
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**Retention:** 0  
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**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 3538566  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** UNCTAD: SECOND PREPARATORY MEETING ONA COMMON FUND, JANUARY 24-29, 1977  
**TAGS:** EAID, EFIN, UNCTAD  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/f90361d3-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009